

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ADP-00 CIAE-00 DODE-00 PM-07 H-02 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

AID-20 COME-00 FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 CEA-02 STR-08 AGR-20 INT-08

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TAGS: ETRD, JA

SUBJECT: JAPANESE PRICING POLICY WITH REGARD TO EXPORTS

REF: A. STATE 78753; B. TOKYO 6463

SUMMARY: RECENT CHANGES IN MONETARY VALUES AND LABOR WAGES SHOULD BE CHANGING ANY PRICE SPREAD BETWEEN OFFERS OF JAPANESE AND US FIRMS IN THIRD COUNTRY MARKETS.

THERE ARE NO INDICATIONS THAT ADMINISTRATIVE GUIDANCE IS NOW SUBSTITUTING FOR EXPORT INCENTIVES TO GIVE JAPANESE COMPANIES A PRICE ADVANTAGE. WHILE THE ACCOUNTING SYSTEMS OF JAPANESE AND US COMPANIES DIFFER, IT IS MORE LIKELY THAT COMBINATION THAT DIFFERENCE, THE STRUCTURE OF THE JAPANESE BUSINESS SYSTEM AND THE MOTIVATION BEHIND IT ARE SOURCE OF ANY ADVANTAGE JAPANESE COMPANIES HAVE IN THEIR PRICING POLICY. END SUMMARY.

1. WE HAVE BEEN UNABLE TO OBTAIN ANY FURTHER INDICATIONS OF WHAT SPREAD MIGHT BE AT PRESENT TIME BETWEEN OFFERS ON SPECIFIC ITEMS BY JAPANESE AND AMERICAN COMPANIES
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IN THIRD COUNTRY MARKETS. RECENT CHANGES IN RELATIVE MONETARY VALUES SHOULD PLACE US COMPANIES AT BETTER ADVANTAGE. IN ADDITION, DIFFERENCE IN COST OF LABOR IN JAPAN AND US HAS BEEN NARROWING AND WILL DO SO FURTHER WITH THIS YEAR' S 20 PERCENT INCREASE IN WAGES IN JAPAN. THESE CHANGES INDICATE THAT PRICE DIFFERENTIAL SHOULD BE CHANGING IN US FAVOR.

2. CERTAIN ADVANTAGES IMPLICIT IN THE JAPANESE BUSINESS SYSTEM ITSELF, HOWEVER, REMAIN. COMMENTS REQUESTED IN PARA 3 REFTEL LISTED BELOW IN SAME ORDER:

A. EMBASSY UNABLE OBTAIN ANY INDICATION FROM AMERICAN BUSINESS COMMUNITY THAT MITI OR OTHER GOJ AGENCIES OFFERING ADMINISTRATIVE GUIDANCE AS A SUBSTITUTE FOR PREVIOUS FORMAL EXPORT INCENTIVES AND THUS PERMIT ACCEPTANCE OTHERWISE UNPROFITABLE ORDERS. IN THIS CONNECTION EMBASSY NOTES THAT ITS ANALYSIS OF VALUE OF EXPORT INCENTIVES INDICATED THAT THEY NEVER WERE SUFFICIENTLY LARGE TO PERMIT ANYTHING LIKE THE PRICE DISCREPANCY QUOTED BY BEEBE.

JAPANESE OF COURSE PREPARED TO USE JAPAN EXPORT-IMPORT BANK AND EXPORT CREDIT FACILITIES TO ASSIST JAPANESE INDUSTRY EXPORTS. ALSO COOPERATION AND FINANCIAL SUPPORT BY GOJ TO PARTICULAR AREAS OF STRONG NATIONAL CONCERN, E. G., COMPUTER DEVELOPMENT, CONTINUES AND R & D SUBSIDIES UNDOUBTEDLY SERVE TO PERMIT RECIPIENT FIRMS TO ACCEPT LOWER PRICED ORDERS, DOMESTIC AS WELL AS FOREIGN. IN ADDITION, IN OTHER AREAS OF IMPORTANCE SUCH AS OIL EXPLORATION AND SIBERIAN RESOURCE DEVELOPMENT THERE IS CLOSE CONSULTATION AND COOPERATION BETWEEN GOVERNMENT AND INDUSTRY, ALTHOUGH HERE TOO THERE FREQUENTLY ARE SHARP DIFFERENCES OF OPINION BETWEEN INDUSTRY SECTORS AND MITI.

B. ACCORDING TO US BANKING AND ACCOUNTING SOURCES, ACCOUNTING PROCEDURES OF JAPANESE FIRMS ARE FAR DIFFERENT THAN THE US SYSTEM. ALTHOUGH BANKS ARE FULLY AWARE OF THEIR COSTS AND EFFECTIVE RATES OF LOANS, FEW COMPANIES, INCLUDING MOST MAJOR FIRMS, USE ADEQUATE COST ACCOUNTING LIMITED OFFICIAL USE

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PROCEDURES. BECAUSE JAPANESE FIRMS ARE GROWTH- ORIENTED RATHER THAN PROFIT- MAXIMIZERS, FINANCIAL MANAGERS OF CORPORATIONS CONCERN THEMSELVES ALMOST EXCLUSIVELY WITH CASH FLOWS AND MAY NOT FOLLOW FULL COST PRICING PRINCIPLE IN SEEKING NEW BUSINESS. BECAUSE OF THE EMPLOYMENT SYSTEM, LABOR IS CONSIDERED CLOSE TO BEING A FIXED COST. FINANCING, WHICH HAS IMPORTANT EFFECT ON COST, IS

OBTAINED AT HIGHLY VARIABLE RATES. OTHER COSTS SUCH AS MARKET DEVELOPMENT ARE SELDOM CONSIDERED. THUS, WHILE A US FIRM WILL ESTABLISH A PRICE FOR BID OR SALE IN THIRD COUNTRY BASED ON ITS TOTAL COSTS AND REASONABLE PROFIT, A JAPANESE FIRM MAY SET ITS PRICE AT LEAST PARTIALLY ON AN ENTIRELY DIFFERENT SET OF CRITERIA:

(1) ECONOMIC SITUATION AT HOME. DURING PERIODS OF RECESSION, FOR EXAMPLE, A PRICE ON CERTAIN NEW BUSINESS MIGHT BE REDUCED SIMPLY TO KEEP FIXED LABOR EMPLOYED.

(2) THE JAPANESE GROUP OR ONE OF ITS MEMBERS MAY HAVE ANOTHER UNRELATED (FUTURE) PROJECT UNDER CONSIDERATION IN THE SAME COUNTRY. THE PRICE OFFERED ONE MAY HAVE AN EFFECT ON THE APPROVAL FOR ANOTHER.

(3) THE PROJECT ONCE COMPLETED MAY RESULT IN MORE PROFITABLE BUSINESS FOR THE JAPANESE GROUP. THE MOST COMMON EXAMPLE IS THAT THE RESULTING PRODUCTION WILL BE ENTIRELY HANDLED BY THE JAPANESE COMPANY, INCLUDING SIDE BENEFITS (TRANSPORTED BY ITS SHIPS, INSURED BY ITS OWN FIRM, FINANCING FOR OPERATIONS, EQUIPMENT REPLACEMENT, ETC.)

(4) THE JAPANESE FIRMS' AFFILIATIONS. A-247 DATED MARCH 15, 1973, DESCRIBED THE HORIZONTAL KEIRETSU. SUCH CONSORTIA, WORKING TOGETHER FOR MANY YEARS, CAN COOPERATE IN PRICING FOR SPECIFIC PROJECTS TO DEGREE AN AD HOC CONSORTIUM CANNOT.

C. US BUSINESSMEN IN JAPAN STILL SPEAK OF THE OPERATIONS OF ADMINISTRATIVE GUIDANCE IN JAPAN. AS FAR AS WE ARE ABLE TO DETERMINE IT RELATES TO GOJ INFLUENCE ON SUCH AREAS AS APPROVAL FOR PLANT EXPANSION AND SHIFTS IN MARKET SHARES IN JAPAN, BOTH FOREIGN AND LIMITED OFFICIAL USE

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DOMESTIC. IN NO CASES HAS EMBASSY BEEN GIVEN EVIDENCE THAT SUCH GUIDANCE INCLUDES CONCESSIONARY TERMS OR SUBSIDIES IN SOME FORM THAT WOULD PERMIT JAPANESE COMPANIES TO UNDERSSELL COMPETITION, EXCEPT IN FEW REMAINING RESTRICTED INDUSTRIES SUCH AS COMPUTERS.

3. ONE OTHER FACTOR SHOULD BE CONSIDERED IN DISCUSSING ABILITY JAPANESE COMPANIES TO UNDERSSELL US FIRMS IN THIRD COUNTRY MARKETS. AS A-453, MAY 18, 1973, SUGGESTS, RECOGNITION MUST BE GIVEN THEM FOR PUTTING TIME, EFFORT AND MONEY IN DEVELOPING OVERSEAS BUSINESS, FOR PURSUING IT VIGOROUSLY AND FOR WILLINGNESS TO DELAY IMMEDIATE RETURNS FOR POSSIBLE LARGER RETURNS IN LONG RUN. INGERSOLL

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